

**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF DELAWARE**

IN THE MATTER OF THE APPLICATION OF	:
SUSSEX SHORES WATER COMPANY FOR AN	: PSC Doc. No. 07-278
INCREASE IN WATER RATES	:
(FILED OCTOBER 15, 2007)	:

PROPOSED SETTLEMENT AGREEMENT

THIS PROPOSED SETTLEMENT AGREEMENT ("Settlement") is entered into as of the ____ day of April, 2008, by and among SUSSEX SHORES WATER COMPANY ("Sussex Shores" or the "Company"), the STAFF OF THE DELAWARE PUBLIC SERVICE COMMISSION ("Staff") and the DIVISION OF THE PUBLIC ADVOCATE ("DPA") (each, a "Party" and, collectively, the "Parties").

WHEREAS, on October 15, 2007, Sussex Shores filed an application (the "Application") with the Delaware Public Service Commission (the "Commission"), pursuant to 26 *Del. C.* §§201, 209, 304 and 306 and other sections of the Public Utilities Act of 1974, 26 *Del. C.* §§101, *et seq.* (the "Act") as applicable, seeking an overall increase of \$305,873 over base rates previously authorized by the Commission in 2000 in PSC Docket No. 99-576. On a net basis, the Company's overall revenue would increase approximately 22.68% over Test Period revenues, and

WHEREAS, the Application also included revised tariff sheets and a proposed new tariff sheet (the "Proposed Tariff"), which incorporated proposed changes to Sussex Shores' rates, including a separate tariff page for Private Fire Line Service.

WHEREAS, on December 18, 2007, the Commission entered Order No. 7334 pursuant to which Sussex Shores' petition filed October 15, 2007, to put interim rates into effect, with assurance of future payment of refunds secured by a letter of credit, was approved (the

requirement of a surety bond having been waived by the Commission), thereby permitting Sussex Shores to place into effect, on December 18, 2007, an interim rate increase of \$154,651 under bond, and subject to refund as permitted under 26 *Del. C.* §306(c); and

WHEREAS, on January 25, 2008, a duly noticed public comment session was conducted at the Bethany Beach Town Hall; and

WHEREAS, on December 31, 2007, Sussex Shores filed updated Test Period financial data as of September 30, 2007; and

WHEREAS, pursuant to 29 *Del. C.* §8716, the DPA intervened in this proceeding; and

WHEREAS, the Parties have conducted substantial discovery; and

WHEREAS, the Parties desire to avoid the substantial additional costs which would be involved if Staff and DPA were required to file prefiled testimony, and this case were to proceed to evidentiary hearing; and

WHEREAS, the Parties have conferred in an effort to resolve the issues raised in this proceeding; and

WHEREAS, it is acknowledged that the Parties differ as to the proper resolution of many of the underlying issues in the rate proceeding and are preserving their rights to raise those issues in future proceedings, but believe that settlement of the pending rate proceeding on the terms and conditions contained herein will serve the interest of the public and the Company, while meeting the statutory requirement that rates be both just and reasonable.

NOW, THEREFORE, IT IS HEREBY STIPULATED AND AGREED by the undersigned that the Parties shall, and do hereby, submit to the Commission for its approval the following terms and conditions for resolution of this rate proceeding:

1. The Parties acknowledge that this Settlement, and the amounts set forth herein, have been agreed to as a compromise of the Parties' positions, and the Parties hereby acknowledge, agree and set forth their collective belief that these proposed rates are within the bounds of the statutory requirement of a fair rate of return, based on circumstances specifically unique to Sussex Shores.

2. The rates established are intended to afford Sussex Shores an overall revenue increase of twelve percent (12%) on revenues subject to a rate increase, amounting to a rate increase of \$154,651. The overall rate increase is 11.466% representing a total revenue requirement of \$1,503,389. This revenue requirement is based on a compromise between the Parties on all issues toward the end of achieving an overall resolution of the case and does not reflect any particular position on any issue except as may otherwise be expressly set forth herein.

3. The Parties pledge to use their respective best efforts to work diligently towards securing the Commission's approval of this Settlement (including the rates and tariff provisions herein contained), which shall become effective July 1, 2008.

4. The Parties have agreed to a rate design and tariff schedule, as reflected in the Proof of Revenues and Tariff Rates, attached as Exhibit A. The changed tariff pages are attached as Exhibit B. In addition to the changes in rates, the Parties have agreed that it is just and reasonable for Sussex Shores to implement a new and separate Private Fire Line Service Tariff upon the rates, terms and conditions, set forth on Original Sheet 8, contained in Exhibit B.

5. The Company's rate case expenses were a significant issue for Staff in this proceeding. Staff believes that it is incumbent upon the Company to make best efforts to reduce the Company's rate case expenses in its next rate case. Sussex Shores understands the Staff's concern about rate case expenses. However, the Company believes that a number of rate case

expenses are not within the Company's control and are associated with such matters as current regulatory compliance requirements under the "Rules and Regulations Governing Rate Case Filing Requirements for Class A Utilities" and the need for the Company to provide information in response to Staff and DPA data requests.

6. This Settlement is the product of extensive negotiation, and reflects a mutual balancing of various issues and positions. It is therefore a condition of the Settlement that it be approved by the Commission in its entirety without modification or condition. If this Settlement is not approved in its entirety, this Settlement shall become null and void.

7. This Settlement shall not set a precedent, shall not have any precedential effect in any future proceeding, and no Party shall be prohibited from arguing any policy or position before the Commission in any future proceeding as a result of this Settlement. The purpose of this Settlement is to provide just and reasonable rates for the customers of Sussex Shores. In addition, the Parties believe that the Settlement is in the public interest because, among other things, it avoids the additional cost of litigation.

8. The terms of this Settlement will remain in effect until changed by an order of the Commission or until mutually agreed to in writing by the Parties. The Parties acknowledge and agree that the Commission retains jurisdiction over this Settlement and all statutory procedures and remedies otherwise available to the Parties to ensure that Sussex Shores' rates are just and reasonable, while providing a fair rate of return to Sussex Shores' shareholders, including without limitation, 26 *Del. C.* §§304 and 309-311.

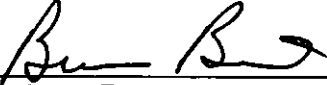
10. This Proposed Settlement Agreement may be executed in multiple counterparts by any of the signatories hereto and transmission of an original signature by facsimile or e-mail shall constitute valid execution of this Agreement. Copies of this Proposed Settlement

Agreement executed in counterpart shall constitute one agreement. Each signatory executing this Proposed Settlement Agreement warrants and represents that he or she has been duly authorized and empowered to execute this Proposed Settlement Agreement on behalf of their respective Party.

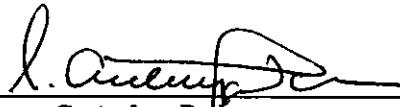
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THE SIGNATURE PAGES IMMEDIATELY FOLLOW]

IN WITNESS WHEREOF, the undersigned Parties have executed this Settlement with intent to be legally bound hereby as of the day and date set forth in the first paragraph hereof.

DELAWARE PUBLIC SERVICE COMMISSION – STAFF

Date Signed: 4/21/08 By: 
Name: Bruce Burcat
Title: Executive Director,
Delaware Public Service Commission

DIVISION OF THE PUBLIC ADVOCATE

Date Signed: 4/18/08 By: 
Name: G. Arthur Palmore
Title: Public Advocate

SUSSEX SHORES WATER COMPANY

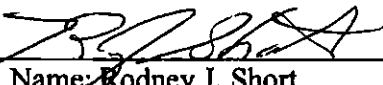
Date Signed: 4-09-08 By: 
Name: Rodney J. Short
Title: President

EXHIBIT A

STIPULATION

REVENUES

Line No.	Meter Size	Number of Customers		Number of Bills		Present Rates		Stipulation		
		Test Year	Test Period	Test Year	Test Period	Tariff Rate	Test Year	Test Period	Tariff Rate	Test Period Revenues
1	5/8"	200	200	800	800	\$ 77.00	\$ 61,600	\$ 61,600	\$ 86.24	\$ 68,992
2	3/4"	1,167	1,183	4,668	4,732	\$ 91.00	424,788	430,612	\$ 101.92	482,285
3	1"	310	310	1,240	1,240	\$ 150.00	186,000	186,000	\$ 168.00	208,320
4	1.1/2"	7	7	28	28	\$ 801.00	22,428	22,428	\$ 897.12	25,119
5	2"	7	7	28	28	\$ 2,001.00	56,028	56,028	\$ 2,241.12	62,751
	Total	1,691	1,707	6,764	6,828					
6				Total Fixed Service Charge			750,844	756,668		847,468

			% per Step			
7	Test Year	0 - 5,000	gallons	23.15%	20,580,512	\$ 3.25
8		5,001 - 20,000	gallons	32.60%	28,981,628	\$ 4.63
9		Over 20,000	gallons	44.25%	<u>39,338,560</u>	\$ 5.90
10		Total Test Year Consumption			88,900,700	
11	Test Period	0 - 5,000	gallons	23.15%	20,761,283	\$ 3.25
12		5,001 - 20,000	gallons	32.60%	29,236,191	\$ 4.63
13		Over 20,000	gallons	44.25%	<u>39,684,093</u>	\$ 5.90
14		Total Test Year/Test Period Water Charge			89,681,567	
					<u>433,169</u>	
					<u>436,974</u>	
15		Total General Metered Service			\$ 1,184,013	\$ 1,337,087

Delaware Public Service Commission
 Company: Sussex Shores Water Company
 Docket No. 07-278

STIPULATION

SUSSEX SHORES WATER COMPANY REVENUES PUBLIC FIRE HYDRANT SERVICE and PRIVATE FIRE LINE SERVICE TEST YEAR, TEST PERIOD AND STIPULATION

Public Fire Hydrant Service

Line No.	Number of Customers		Number of Bills		Present Rates		Stipulation	
	Test Year	Test Period	Test Year	Test Period	Test Year	Test Period	Tariff Rate	Test Period
1	176	176	704	704	80,960	80,960	\$ 115.00	\$ 128.80
								\$ 90,675

Private Fire Line Service

Meter Size	Number of Customers		Number of Bills		Present Rates		Proposed Rates	
	Test Year	Test Period	Test Year	Test Period	Test Year	Test Period	Tariff Rate	Stipulation
2 1 1/2"	3	3	12	12	1,380	1,380	\$ 115.00	\$ 51.20
3 2"	8	8	32	32	3,680	3,680	\$ 115.00	\$ 90.20
4 3"	1	1	4	4	460	460	\$ 115.00	\$ 115.00
5 4"	2	2	8	8	920	920	\$ 115.00	\$ 129.20
6 6"	12	12	48	48	5,520	5,520	\$ 115.00	\$ 157.00
7 10"	1	1	4	4	460	460	\$ 115.00	\$ 345.00
8 Total	27	27			12,420	12,420		\$ 13,910

STIPULATION

SUSSEX SHORES WATER COMPANY
 OPERATING REVENUES
 6/30/2007 ACTUAL, TEST YEAR, TEST PERIOD AND STIPULATION

Line No.	Ref	Actual 06/30/07 (1)	Test Year (2)	Test Period (3)	Stipulation	
					Rate Increase	Revenues Increase (6)
1	Page 2	\$ 1,165,118	\$ 1,184,013	\$1,193,642	\$ 143,445	\$1,337,087
2	Page 3	87,337	80,960	80,960	9,715	90,675
3	Page 3	-	12,420	12,420	1,490	13,910
4	Total Revenues Subject to Rate Increase	1,252,455	1,277,393	1,287,022	154,651	1,441,673
5	Tower Rental	67,812	68,921	68,921	-	68,921
6	Miscellaneous Service	9,515	9,515	9,515	-	9,515
7	Annual Credit - 1" Conversion Customers	-	(16,720)	(16,720)	-	(16,720)
8	Total Revenues	\$ 1,329,782	\$ 1,339,109	\$1,348,738	\$ 154,651	\$1,503,389
						11.466%

EXHIBIT B

GENERAL METERED SERVICE

APPLICABILITY

Applicable for general metered residential, commercial, industrial, municipal and sales for resale service throughout the entire territory served by the Company. The charge for general metered service shall consist of the total of the Fixed Service Charge and the Water Charge.

FIXED SERVICE CHARGE

All general metered water service customers shall pay a fixed service charge based on the size of each meter installed by the Company. Customers with multiple meters shall be charged for each meter at the indicated rate. Whenever service is established or is discontinued all applicable fixed charges shall be prorated to date of establishment or discontinuance of service.

<u>Size of Meter</u>	<u>Per Quarter</u>
5/8"	\$ 86.24
3/4"	101.92
1"	168.00
1-1/2"	897.12
2"	2,241.12

WATER CHARGE

In addition to the Fixed Service Charge set forth above, a charge will be made for all water used as registered by the meter.

<u>Gallons Per Quarter</u>	<u>Rate Per 1,000 Gallons</u>
0-5,000	\$3.64
5,001-20,000	5.19
Over 20,000	6.61

For those customers who meet the following criteria, namely: (1) are outside the Company's franchise territory (CPCN) and (2) have a legitimate alternative source of supply, the third block rate will be the same as the second block rate.

TERMS OF PAYMENT

Bills for general metered water service furnished under this schedule will be rendered either quarterly or monthly, at the option of the Company, and are due immediately upon receipt. The fixed service charge portion of the bill will be billed in advance. The water charge portion of the bill will be billed in arrears based upon actual meter readings.

Issued:

Effective

PUBLIC FIRE HYDRANT SERVICE

Applicability

Applicable for public fire hydrant service throughout the entire territory served by the Company.

RATE

A fixed service charge of \$128.80 per hydrant per quarter shall be charged.

TERMS OF PAYMENT

Bills for public fire hydrant service furnished under this schedule will be rendered either quarterly or monthly in advance, at the option of the Company, and are due immediately upon receipt.

Issued:

Effective

PRIVATE FIRE LINE SERVICE

Applicability

Applicable to customers with a dedicated Private Fire Service line, who are charged a Private Fire Line Service charge based on the meter size or, if there is no meter, based on the charge for a meter the same size as the service line, plus a Water Charge, if applicable.

RATE

The Private Fire Line Service Charge is as follows:

<u>Size of Meter</u>	<u>Quarterly Charge</u>
1 ½"	\$ 51.20
2"	90.20
3"	115.00
4"	129.20
6"	157.00
10"	345.00

TERMS OF PAYMENT

Bills for Private Fire Line Service furnished under this schedule will be rendered either quarterly or monthly in advance, at the option of the Company, and are due immediately upon receipt.

Issued:

Effective